



CIO OFFICE MORNING MARKET WRAP – Wednesday 20th January 2021. ALSO AVAILABLE ON ALEXA.

In the morning session stocks are mixed in Asia, with Australia headed higher and Japan in losing territory, while US futures are struggling for direction. On the final day of Donald Trump's presidency US stocks ended where he has always loved them to be, hovering near all-time highs, while the dollar slipped, gold and Treasuries were little changed and Brent crude advanced by more than 2%. The major US lenders gave positive earnings updates and Treasury secretary nominee Janet Yellen pushed for a hefty fiscal package at her confirmation hearing.

The theme going into today's inauguration of Joe Biden seems to be optimism about more stimulus fuelling the already stronger than expected US recovery. Bank of America gained 1.4% topping profit estimates, releasing reserves to cover corona virus-related loan losses as competitors did, but providing also a more positive outlook. Goldman Sachs fourth-quarter profit more than doubled, driven by its trading and underwriting business. General Motors recorded new all-time highs as Microsoft invested in its self-driving car start-up. Cyclical were well bid, with financials, industrials and energy leading showing that investors had come back to the reflation trade.

Investors were cheered by Yellen's taking the role of Treasury Secretary, expecting more cooperation between Treasury and the Fed supporting markets as monetary and fiscal policy get more aligned. The Germany ZEW Survey above expectations pointed to increasing confidence in the recovery and bolstered the euro area currency. Brussels is behind a push to increase the international role of the euro against the dollar by boosting the issuance of bonds and use of derivatives denominated in euros. ETFs invested in EM assets saw the highest inflows in more than a year during the last days of Donald Trump's presidency. The prospect of more US fiscal stimulus alongside China's quick recovery pushed the MSCI EM Index to a new all-time high on Friday.

The International Energy Agency revised downwards projections for oil demand in 2021, citing renewed lockdowns as a drag, although it also mentioned that the second half of the year would see a strong recovery on the back of more vaccinations. Calls of inflation running above the Fed's 2% target by this year-end are multiplying. According to Jeremy Siegel, professor of finance at the University of Pennsylvania, the money supply surge in 2020 exceeded any in the one-hundred and fifty years for which there is data, this time ending up also in people's pockets via government relief programs financed by Treasury: bond bulls may have to temper their optimism.

Stay safe.

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